

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4260-01
Bill No.: HB 1821
Subject: Banks and Financial Institutions; Business and Commerce; Insurance General;
Insurance Department
Type: Original
Date: February 25, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Insurance Dedicated	\$33,900	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$33,900	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance (INS)** assume that some property and casualty insurers may need to re-file their policy forms to comply with legislation. This would result in one-time maximum revenues to the Insurance Dedicated Fund as follows: 678 insurers (personal auto, fire and homeowner insurers) x \$50 per filing = \$33,900. Projected Revenues will be a range of \$0-\$33,900 in FY 2003. It is anticipated that current appropriations and staff will be able to absorb the work for implementation of this single proposal. However, if additional proposals are approved during the legislative session, the INS will require additional staff to handle the increase in workload.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
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INSURANCE DEDICATED

Income - Department of Insurance			
Form filing fees	<u>\$33,900</u>	<u>\$0</u>	<u>\$0</u>

ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$33,900</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal limits the way in which insurers may use credit information in their underwriting

process and establishes several restrictions and prohibitions on the improper termination of insurance coverage.

CREDIT SCORING

The proposal:

- (1) Establishes minimum standards for the collection and use of credit information in the insurance underwriting process and requires insurers to provide their standards in written form to the INS and to apply those standards uniformly to all applicants and insureds;
- (2) Requires insurers to file with the INS any documentation necessary to explain the formulas and methodology used by the insurer to incorporate credit information into their underwriting processes;
- (3) Authorizes the INS to collect data regarding the correlation between credit rating and losses;
- (4) Permits the INS to review denials of insurance that are alleged to be in violation of the bill; and
- (5) Allows insureds to request reevaluation of their insurance rating whenever an insurer uses credit information in its underwriting process.

IMPROPER TERMINATION

The proposal:

- (1) Requires that insurance policies include the insurer's termination provisions;
- (2) Prohibits insurers from terminating a policy because of race, color, creed, national origin, ancestry, gender, sexual orientation, or marital status;
- (3) Prohibits insurers from terminating a policy because of age, disability, or geographic location, unless the action is the result of the application of sound underwriting and actuarial principles;
- (4) Prohibits insurers from canceling a policy because of the insured's "intentional concealment of facts" after 180 days or one policy period;

DESCRIPTION (continued)

- (5) Requires insurers to provide a full year's notice to the INS of their intent to withdraw an

entire line of insurance from the market;

- (6) Requires insurers to provide notice 10, 30, or 45 days prior to the cancellation of a policy, depending on the how long the policy has been in effect and the reasons for cancellation;
- (7) Requires prior notice of 45 days for non-renewal of a policy;
- (8) Requires refunds to be made on a pro-rata basis when an insurer cancels a policy, unless the policy states otherwise;
- (9) Establishes a procedure for appealing to the INS an improper termination of coverage. The proposal requires an insured to file a written appeal with the INS at least 25 days before the effective date of the termination of coverage. The INS can order that coverage be continued, pending a hearing and resolution of the appeal; and
- (10) Allows the INS to fine insurers up to \$250,000 for conscious disregard of the law prohibiting improper termination of an insurance policy.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance



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